

CREDIT OPINION

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New Issue

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Brookline (Town of) MA

New Issue - Moody's Assigns Aaa and MIG 1 to Brookline, MA's \$24.7M GO Bonds and \$0.5M BANs; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Brookline MA's \$24.7 million General Obligation Municipal Purpose Loan of 2016 Bonds and a MIG 1 rating to the town's \$500,000 General Obligation Bond Anticipation Notes (BANs, dated March 29, 2016 and payable March 29, 2017). Concurrently, we have affirmed the Aaa rating on approximately \$68.9 million of outstanding general obligation bonds. The outlook is stable.

The Aaa rating reflects the sizeable and affluent tax base which benefits from strong property values and close proximity to New England's largest employment center. The rating also incorporates a stable financial position bolstered by formal policies and strong management. The rating also factors in the low debt burden and manageable pension liability.

The MIG 1 rating reflects the town's long-term credit rating of highest quality, satisfactory takeout management with strong market access and healthy liquidity.

Credit Strengths

- » Sizeable tax base with very strong socio-economic indicators
- » Comprehensive fiscal policies and planning
- » Long trend of stable financial operations
- » Taxpayer support for general overrides and debt exclusions

Credit Challenges

- » Increasing capital needs driven by growing school enrollment
- » Limited operating flexibility under Proposition 2 ½

Rating Outlook

The stable outlook reflects the favorably located tax base that is expected to continue to experience residential growth. The outlook also incorporates the stable financial position that is expected to continue over the near term due to comprehensive fiscal management and expectation that capital plans will continue to be supported by voter approved debt exclusions when needed.

Factors that Could Lead to a Downgrade

- » Trend of operating deficits that result in a material decline in reserves
- » Substantial increase in the debt burden
- » Failure to address long-term pension and OPEB liabilities
- » Material decline in the tax base

Key Indicators

Exhibit 1

Brookline (Town of) MA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 16,024,897	\$ 16,024,897	\$ 16,264,277	\$ 16,264,277	\$ 17,051,417
Full Value Per Capita	\$ 272,848	\$ 272,848	\$ 276,924	\$ 274,114	\$ 287,380
Median Family Income (% of US Median)	N/A	229.8%	229.8%	229.8%	229.8%
Finances					
Operating Revenue (\$000)	\$ 207,317	\$ 214,339	\$ 224,539	\$ 231,681	\$ 232,769
Fund Balance as a % of Revenues	11.3%	12.1%	12.1%	11.3%	10.5%
Cash Balance as a % of Revenues	13.4%	14.7%	14.8%	14.9%	14.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 61,196	\$ 65,775	\$ 65,078	\$ 64,493	\$ 61,105
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.3x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.4%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.1x	1.3x	1.4x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.4%	1.8%	2.0%	2.3%

As of fiscal year end, June 30 / Full Value = Equalized Value

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Affluent Residential Town with Favorable Location

Brookline's large \$17 billion tax base will remain stable with moderate growth over the medium term, given its favorable location, high value housing stock, and strong resident wealth levels. Located adjacent to the City of Boston (Aaa stable), the town benefits from its location to New England's largest economic center, which is directly accessible by public transportation. The town has seen strong growth in the tax base over the last two years by 10% and 9.6% in 2015 and 2016, respectively, bringing the five-year compound growth to 4.8%. Over the last ten years, the town experienced only one decline of 0.7% in 2008. While the tax base is 90% residential, there has been some commercial development being added to the tax roll recently, including projects in the Brookline Village area. New growth is estimated to remain above \$2 million through 2017.

Median home values are over almost four times the national median. Wealth levels are well above national medians with per capita and median family income representing 229% and 230% of the nation, respectively. The unemployment rate of 2.7% (November 2015) remains well below the commonwealth (4.5%) and US (4.8%).

Financial Operations, Reserves and Liquidity: Stability Expected To Continue Given Formal Policies and Long Range Planning

The financial position will likely remain healthy over the near term given the town's history of balanced operations, maintenance of adequate reserve levels and commitment to addressing capital needs and long-term liabilities. The balanced operations are the result

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of comprehensive and formalized financial policies as well as long range budget projections for operating and capital needs. The fiscal 2015 audited financials reflect a slight operating deficit of \$1.8 million after transfers of \$9.4 million out of the General Fund to the Capital Article Fund for specific capital projects. Net of transfers, the General Fund ended the year with just under a \$1 million surplus. Due to the transfer out for capital needs, the available General Fund balance (assigned and unassigned) was reduced to \$24.6 million or 10.5% of revenues including transfers. The town has historically maintained General Fund reserves around 10-11% of revenues and we expect this level to be maintained over the near term. While these levels are narrow compared to the rating category's national median, they are adequate given the strong fiscal management and reliance on property taxes that represent 75% of 2015 revenues. Additionally, collection rates year-over-year continue to be strong with 99% collected within the current year.

The fiscal 2016 budget increased 6.5% from the prior year and is balanced with a tax levy increase of 7% that includes \$6.2 million of the \$7.7 million general override that will be used over the next two years. Year-to-date expenditures are trending on budget and revenues are up around 11% compared to last year. Year-end operations are expected to be balanced with little change to reserves. The fiscal 2017 preliminary budget reflects a 4.2% increase driven by education and employee benefits. The tax levy is expected to increase by 4.6% including the remaining portion of the general override.

Brookline's long range financial plan (FY17-21) indicates manageable annual budget deficits of \$4 million in 2018 increasing to \$10.8 million in 2021 which average 2.5% of revenues over the four year period. The forecast continues to be conservative with a 3.3% average annual revenue increase and 4.2% average annual expenditure increase from 2018 through 2021. The town has historically closed the gaps as the budget year approaches. Although, we expect the town will need to continue to rely on taxpayer support of general overrides and debt exclusions in the future to maintain the very stable financial position over the long term.

LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$33.1 million or 14.2% of revenues including transfers. The cash position provides very strong liquidity to support the \$500,000 note issuance should market access be difficult at the time of the March 2017 maturity.

Debt and Pensions: Long-term Liabilities Remain Manageable

The town's net direct debt (including the current issuance) equals 0.5% of equalized value. We expect the debt burden to gradually rise over the next five to ten years given the rising cost of the Capital Improvement Plan (CIP) driven by school projects. Importantly, the expected debt burden will remain manageable based on current projections given the town's debt policy which incorporates funding sources and funding levels from debt, pay-go and reserves. The fiscal 2016-2021 CIP totals \$274 million with an average of approximately \$45.7 million per year. The plan includes the debt exclusion for the Devotion School that is partially financed with the current issuance. The plan also highlights the need for future debt exclusions for school-related projects in order to adhere to the town's debt policy. Following the current issuance, the town will have \$114.9 million in authorized unissued debt.

DEBT STRUCTURE

All of the town's debt is fixed rate with 79% of principal retired in ten years. Fiscal 2015 debt service represented a low 3.9% of expenditures.

DEBT-RELATED DERIVATIVES

Brookline has no derivatives.

PENSIONS AND OPEB

The town maintains and participates in the Brookline Contributory Retirement System, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) in 2015, represented \$17.6 million, or 7.3% of General Fund expenditures. The town plans to fully fund its pension liability by 2030, well in advance of the state mandate of 2040. The town's 2015 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$373 million, or a moderate 1.6 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has begun to more aggressively fund its other post-employment benefits (OPEB) obligation, and is working to fully fund its ARC by fiscal 2022. In 2015, the town funded 73% of the ARC, representing \$13.3 million. The total Unfunded Actuarially Accrued

Liability (UAAL) for OPEB is \$198 million, as of June 30, 2014. Additionally, the town makes annual contributions to an established OPEB trust which has contributed to the funding ratio of 11.3% as of the latest valuation report.

Fiscal 2015 total fixed costs including debt service, required pension contributions and retiree healthcare payments, represented \$40.2 million or 16.6% of expenditures.

Management and Governance

Brookline adheres to conservative and comprehensive fiscal policies including multi-year forecasting for operations and capital needs as well as plans to address long-term liabilities.

Massachusetts towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Towns have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for towns that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

Legal Security

The BANs are secured by a general obligation limited tax pledge of the town as debt service has not been voted exempt from the levy limitations of Proposition 2 ½.

The bonds in the amount of \$10 million are secured by a general obligation unlimited tax pledge of the town as debt service has been voted exempt from the levy limitations of Proposition 2 ½. The remaining bonds are secured by a general obligation limited tax pledge of the town as debt service has not been voted exempt from the levy limitations of Proposition 2 ½.

Use of Proceeds

BAN proceeds will fund golf course improvements. Bond proceeds will fund the Devotion School project, various other capital projects of the town, and advance refund a portion of bonds dated March 1, 2008 and April 15, 2009 for an aggregate net present value savings of \$581,000 or 9.1% of refunded principal with no extension of maturity.

Obligor Profile

Brookline, with a population of 58,732, is a sizeable residential community neighboring the City of Boston.

Methodology

The principal methodology used in the long-term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short-term rating was US Bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on www.moody's.com for a copy of these methodologies.

Ratings

Exhibit 2

BROOKLINE (TOWN OF) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2016 Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$24,740,000
Expected Sale Date	03/15/2016
Rating Description	General Obligation
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$500,000
Expected Sale Date	03/15/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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